

Statement of
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Committee on Agriculture
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Introduction

Good morning, Mr. Chairman and members of the Subcommittee. My name is Mark Mazur and I am the Acting Director of the Office of Policy at the Department of Energy. The Department welcomes the opportunity to testify today regarding the impact of electric restructuring and retail competition on rural America.

The Clinton Administration supports consumer choice and competition among power suppliers because it will (1) lower electricity rates, (2) make American businesses more competitive, (3) spur the innovation of new products and services and (4) reduce the emissions of traditional air pollutants and greenhouse gases. On April 15, Secretary Richardson transmitted to Congress the Clinton Administration's Comprehensive Electricity Competition legislation, which sets out our vision for the appropriate Federal role to enhance the benefits associated with retail competition¹. The Administration's proposal was developed by the Department of Energy, with the active participation of the Agriculture Department and other agencies. As Deputy Secretary of Agriculture Richard Romminger has stated, this bill is more sensitive to rural concerns than any other restructuring plan ever put before Congress.

The Administration recognizes that the prospect of electric restructuring has created anxiety for some living in rural areas. However, we believe that rural America will benefit from a more competitive environment. These benefits would be enhanced by the Administration's proposed legislation which responds to specific rural needs and concerns.

¹ The Administration bill was recently introduced in the House of Representatives by Congressmen Bliley and Dingell, upon request.

My testimony today will briefly discuss the Administration's analysis of the likely effects of retail competition on consumers. Thereafter the testimony will focus on the provisions of the Administration's bill which enhance the benefits available to rural America.

Economic Analysis

The Administration has provided the Committee a preprint version of the *Supporting Analysis* for the proposed legislation. The specific results derived from the *Supporting Analysis* come from the Policy Office Electricity Modeling System (POEMS), a sophisticated model of the nation's electricity system, which considers all individual sources of power and all transmission and distribution entities.

Overall, we estimate that a competitive electricity market will save American consumers at least \$20 billion per year by 2010. Our analysis projects that retail competition will result in lower prices to residential customers in all regions and States throughout the projection period. When prices paid by commercial and industrial customers are included in the comparison, average prices are lower under competition in all regions of the country and in 45 of the 48 states included in the modeling analysis. While the analysis indicates that not all classes of consumers would see lower prices from retail competition in Montana, Oregon and Washington, a modest alternative strategy can assure benefits from competition to all customer classes. With appropriate strategies to implement competition, the Administration believes that even these three states, one of which has already passed its restructuring plan, can assure benefits from competition to all customer classes.

Rural-Friendly Provisions of the Administration Proposal

Flexible “Opt-Out” Approach

The Administration bill would require each state public service commission and each unregulated cooperative and municipal utility to conduct a public proceeding and provide consumers with the opportunity to purchase power from the supplier of their choice by January 1, 2003, unless they find that consumers would be better served by an alternative policy or the current regulated monopoly system. This approach encourages retail competition, while ensuring that States and non-regulated utilities have the opportunity to implement an approach that meets their unique needs. It also addresses the concerns of some States and non-regulated utilities that a one-size-fits-all approach to retail competition could lead to increased costs. This proposal provides rural America with a strong protective mechanism. If a state regulatory commission or unregulated rural electric cooperative determines competition will have an adverse impact on consumers, they can choose to opt-out.

Renewable Portfolio Standard

Retail competition has the potential to significantly increase renewable energy’s share of the electricity market, because it will allow environmentally-conscious consumers to support green energy technologies by voting with their wallets. Nonetheless, the inherent uncertainty of the transition to competition and the recognition of important environmental and energy diversification benefits from renewables suggest that Federal policy towards renewable electricity should be addressed in the context of restructuring. To this end, the Administration is proposing a Federal Renewable Portfolio Standard (RPS) that would require all electricity sellers to cover 7.5 percent of their electricity sales with generation from non-hydroelectric renewable sources

such as wind, solar, biomass or geothermal energy by 2010.

Rural America is likely to benefit substantially from the RPS. The POEMS results indicate that biomass and wind energy resources will account for the vast majority of renewable electricity produced in response to the Administration's proposed RPS program. These resources are located almost exclusively in rural America.

Likely rural impacts associated with the RPS include increased economic development, job creation, higher local property tax revenues, enhanced agricultural production, and increased land values. While the Department of Energy lacks the expertise to provide a full economic analysis of direct and spillover benefits to rural economies, information from projects currently under development and from previous analyses indicates that such benefits are likely to be significant. A preliminary analysis by Department of Agriculture (USDA) economists of the Administration's 1998 legislative proposal, which included a somewhat lower RPS, estimated that net farm income would have increased by almost 0.8 percent per year when the standard was fully implemented. USDA economists have indicated that growth in net farm income due to biomass opportunities would be somewhat higher under the 7.5 percent RPS included in the Administration's proposal released this year.

The impacts of wind power development on rural income were not considered in this analysis and remain a subject for future study. The POEMS results show an increase of 59 billion kilowatthours in wind power generation in the Competitive scenario relative to the Reference scenario in 2010—a development that would lead to more than 2,000 direct (permanent) jobs to run the wind farms and more than 8,000 person-years of direct employment to build them. None of these estimates reflects multiplier effects on local employment or fees paid to landowners.

Wind projects will also make an important contribution to the local tax base, easing the burden on other taxpayers. For example, a single new 35-megawatt project in Culbertson County, Texas, is producing \$400,000 in annual tax revenue, or over 10 percent of the county's total property tax revenue. More than 650 projects of the same size would be needed to provide the increase in wind generation projected in the POEMS analysis of the Administration plan.

Rural Safety Net

While the Administration believes electric restructuring will benefit rural America, some have expressed concerns that rural consumers could be harmed. As a result, the Administration bill includes a "rural safety net" which would be available should the expectations associated with competition not be realized. Under the safety net provision, a national wires charge of up to .17 mills per kwh would be available to generate funds if the Secretary of Energy, in consultation with the Secretary of Agriculture, determines that competition has adversely impacted rural consumers.

In combination with other rural-friendly policies included in the Administration proposal, the rural safety net provides an appropriate amount of protection compared to standard indicators of rural electricity expenditures. For instance, rural distribution cooperatives currently sell roughly \$16 billion worth of electricity annually. According to data collected by the Rural Utilities Service, approximately one-third of this value represents the distribution function that is directly affected by retail competition. Thus, at its ceiling level, the rural safety net by itself could cover more than 15 percent of the total distribution costs of all rural electric cooperatives within the United States.

There are, of course, many alternative measures of rural electricity expenditures. For

example, the Energy Information Administration's latest Residential Energy Consumption Survey reports over \$18 billion in electricity expenditures by residential electricity consumers classified as rural, without regard to the type of utility providing service. However, since the adverse impacts of competition, if any, are likely to be highly localized, the resources provided in the Administration's proposed safety net should be sufficient to meet all reasonably foreseeable contingencies regardless of how the rural electricity expenditure base is defined.

Rural and Remote Power Grants

The benefits associated with retail competition derive from consumer access to alternative power suppliers. However, some remote communities are not connected to the major power grids or have transmission constraints that merit particular attention. These communities face high costs associated with the addition of transmission and distribution facilities and may not be able to access competing suppliers. This could pose a significant barrier to economic development. Unfortunately, some remote communities are not eligible for loans from the Rural Utilities Service because of dim prospects for repayment. To help residents of remote areas, the Administration proposal would authorize appropriations for grants to address the electricity needs of small, remote communities.

Retention of Cost-based Federal Power

Many rural communities served by electric cooperatives and municipal utilities receive the benefits of cost-based preference power generated at Federal dams and marketed by the Power Marketing Administrations. The Administration proposal retains existing policies for the distribution and pricing of Federal preference power. This power will continue to be sold at cost-based rates rather than market prices. This policy reflects the Administration's goal of

implementing competition in a manner that allows consumers in all regions of the country served by all types of utilities to benefit from restructuring

Conclusion

Mr. Chairman, we believe that our approach, as outlined in the Administration's proposed legislation, goes a long way towards meeting the requirement to update the statutory framework for the electricity sector in a manner appropriate for the 21st century. In the Administration's view, this is not an issue that inherently involves a conflict among regional interests or groups -- if restructuring legislation at the Federal level is handled in the manner proposed by the Administration, both rural and urban consumers in all areas of the country can benefit.

I would be glad to answer any questions you or the other Committee members may have.